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INFO RUCPDC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0744
RUEHRL/AMEMBASSY BERLIN 0601
RUEHBY/AMEMBASSY CANBERRA 0620
RUEHLO/AMEMBASSY LONDON 1430
RUEHMO/AMEMBASSY MOSCOW 0744
RUEHOT/AMEMBASSY OTTAWA 0573
RUEHFR/AMEMBASSY PARIS 1283

UNCLAS SECTION 01 OF 03 PRETORIA 000315

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SENSITIVE

STATE PLEASE PASS USAID
STATE PLEASE PASS USGS
DEPT FOR AF/S, ISN, EEB/ESC AND CBA
DOE FOR T.SPURL, G.PERSON, A.BIENAWSKI, M.SCOTT, L.PARKER

E.O. 12958: N/A
TAGS: [ENRG](#) [EMIN](#) [EPET](#) [SENV](#) [BEXP](#) [AMGT](#) [SF](#)
SUBJECT: POWER CRUNCH MAJOR CONCERN AT ANNUAL MINING INDABA

REF: A) Pretoria 262
B) Cape Town 31
C) Pretoria 214
D) Pretoria 168
E) Pretoria 132 and previous

11. (SBU) SUMMARY: The nadir of South Africa's electricity crisis may have passed - when mines were shut-down for lack of electricity guarantees (Ref C), but electricity supply problems will persist for the next four-five years until significant coal-fired power plants come on line. In the interim, the nature of the power crunch will be determined by the ability of government and industry to cooperate and implement conservation and efficiency measures. The impact on economic output will be significant, but is difficult to quantify at this point (Ref A and Septel). The state of infrastructure, including plants and distribution remain a question mark. The power problems in South Africa were a major topic of concern at the February 4-7, 2008 annual Mining Indaba, attended by Mining/Energy Officer and Specialist (Septel). End Summary.

Power Woes Continue - Aims to Reduce Waste

12. (SBU) Background: State power supplier Eskom and the SAG alerted South Africans to persistent electricity supply shortfalls and began imposing "load-shedding" (rolling black-outs) on consumers at the end of 2007. The power crisis reached a head in mid-January when over 25 percent of the country's 37,761 MW of capacity was unavailable for planned (3,675 MW) and unplanned (5,647 MW) maintenance, exacerbated by low coal stockpiles at plants (Refs). Eskom alerted mines and major companies on January 24 that it could no longer guarantee electricity supply. After four-five days closed, mines restarted operations with about 90 percent of their electricity under a rationing system. Analysts expect and the SAG admits that there will be significant shortages until large new coal-fired plants come on line in 2012.

13. (SBU) In his February 8 "business unusual"-themed State of the Nation address (Ref B), President Thabo Mbeki again apologized on behalf of the SAG and Eskom for the power crisis and exhorted South Africans to adopt energy conservation and efficiency measures. He said he would shortly announce a team of "energy champions" experts who would help the SAG in easing energy demand. Mbeki thanked the

private sector for its contribution to mitigating and resolving the crisis, pointing out General Electric's offer to assist by advising on solutions and procuring scarce turbine equipment. At a luncheon with industry leaders on January 28, GE CEO Jeffrey Immelt told Economic Counselor he was going to meet with President Mbeki and offer to help South Africa with up to 4,000 MW of generation capacity, using turbines available from a cancelled deal. GE Energy Market Development Leader Johan Cilliers confirmed to Energy Officer GE's efforts to work with the SAG to devise short-, medium-, and long-term solutions for the power crisis.

14. (SBU) Also speaking on the margins of Parliament meetings in Cape Town, Public Enterprises Minister Alec Erwin sought to allay foreign investors' concerns about the electricity emergency, which he said should be overcome within the next six months. He claimed that South Africa was not alone in facing tight energy supply, and asserted that the country would "fairly quickly" regain a sufficient reserve margin of 16 percent. Westinghouse Senior Vice President Dan Lipman and Regional Vice President Rita Bowser met with Minister Erwin in Cape Town on February 12 to reinforce its bid on significant new nuclear build, in addition to showing commitment to its participation in the Pebble Bed Modular Reactor project. Bowser told Energy Officer that Erwin was optimistic on the SAG's ability to mitigate the power problems.

Mining Sector Complains - But Will Do its Part

15. (SBU) The February 4-7, 2008 Mining Indaba in Cape Town was dominated by surging commodity prices, fears of a U.S. recession, and angst over South Africa's power crunch (Septel). In her opening address, Minerals and Energy Minister Sonjica Buyelwa conceded that

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the SAG had not planned adequately and there would be large-scale shortages. She cited key elements of the national response plan (de-moth-balling plants, cogeneration, rationing, conservation, energy efficiency, and solar traffic lights). Buyelwa fended off criticism that her department building lights were left on at night, claiming that lights were only utilized when the cleaners were working. She called for municipalities, businesses, and consumers to turn off lights and electricity when not in use. Buyelwa applauded (as also did President Thabo Mbeki in his State of the Nation address) Anglo American CEO Cynthia Carroll's calming remarks calling for cooperation and ingenuity, rejecting finger pointing and afro-pessimism, and qualifying South Africa's energy problem as surmountable - and not a disaster.

16. (SBU) At the Mining Indaba and in other venues, mining officials complained that power reductions and uncertainty will have a significantly negative impact on output. Platinum prices continue to surge and set daily records (\$1,977/oz on February 13) based on uncertain supply in South Africa, which accounts for 80 percent of the world's supply. Sister metal rhodium surged past \$7,000/oz at the start of this month. Major platinum producer Anglo Platinum has announced that it expects to lose 150,000 ounces of production in 2008. Smaller producer Northam Platinum adopted a contrarian view, stating the 10 percent cut in power would not affect its output. Number two gold producer Gold Fields warned that a 10 percent drop in its power would result in a 20 percent drop in production output, because 50 percent of power consumption was dedicated to pumping, cooling, and ventilating. Anglo Gold Ashanti said it would lose 200,000-400,000 ounces or 10-20 percent of its South African production. Harmony Gold Mining CEO Graham Briggs (with all their operations in South Africa) lamented the dual challenges of rising costs and Eskom. The Chief Economist at Stellenbosch University told Economic Counselor deep mines which require more than 50 percent of their power for maintenance purposes may suffer an even greater output loss per unit of power cut. Chamber of Mines (COM) Advisor Dick Kruger told Energy Specialist that Eskom was having difficulty in delivering the promised 90 percent of power to mining companies. COM Economist Roger Baxter told Energy Specialist he foresaw cuts in mine production of over eight percent if current problems persisted. Gold companies warned that persistent cuts

could lead to shaft closures and job reductions.

¶17. (SBU) The consensus view is that companies will begin to adopt more energy saving measures over time. A former DME official predicted to Energy Officer that in the short-term Eskom would get a handle on maintenance and companies would adopt conservation and efficiency practices, but in the longer-term, he saw supply problems getting worse, before they were resolved. He characterized the power shortage as a giant failure in SAG policy, since it could have been averted. The former DME official anticipated that mining companies might use the leverage of accommodating conservation measures with respect to gaining favorable response on the vexing issue of gaining mining license conversion by 2009. For example, Anglo American CEO Cynthia Carroll committed to gaining 15 percent efficiency in its operation, gaining applause from the Mining and Energy Minister seated next to her. COM Economist Roger Baxter told Energy Specialist that demand has already declined and mines and companies will continue to implement energy saving measures; however, he corroborated the view that a 10 percent drop in power would cause a greater drop in output. DME Chief Director: Nuclear Tseliso Maqubela told Energy Officer that the problem was already

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abating, but the SAG still had to "tighten the screw one or two more turns."

Another Target is Manufacturing

¶18. (SBU) Manufacturing has been another target of forced reductions for Eskom to balance its power equation and output has been significantly reduced. South Africa Petroleum Industry Association Director Connel Ngcukana told Energy Officer he estimated that manufacturing output was down 20 percent. Arcelor-Mittal South Africa announced on February 13 that it may have to ration steel to its domestic customers, owing to disruptions in production arising mainly as a result of the electricity crisis. Aluminum and ferrochrome smelters tend to suffer an output loss directly

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proportional to electricity cuts. Coca Cola blamed power cuts and related shortages in carbon dioxide for a fall-off in production and sales.

Other Infrastructure Woes

¶19. (SBU) Many observers fear that there are equal or greater problems with electricity transmission and distribution. Attempted restructuring of electricity distribution has been long delayed and analysts believe there is significant under-investment and risk there. For example, a sub-station failure triggered a large black-out in Cape Town on the eve of the Mining Indaba and the opening of Parliament. Although ports and refineries receive priority and are not subject to load-shedding, this outage shut down the Caltex-Chevron refinery, requiring 5-7 days to restart operations. The Cape Town Airport worried about obtaining adequate jet fuel, but was able to find alternative sources.

¶10. (SBU) COMMENT: Energy Officer and Specialist found interlocutors at the Mining Indaba still bullish on doing business in South Africa for a range of commodities. However, uncertainty in South Africa's power supply makes riskier projects in DRC, Zambia, and elsewhere on the continent look more enticing. The SAG has given the public the erroneous impression that the problem is under control by greatly reducing random and aggravating load-shedding in residential neighborhoods. In fact, the SAG's second failure - after failing to plan for adequate power - is its inability to plan for efficient load-shedding and power-sharing. Forcing mining and manufacturing to bear the brunt of the electricity crisis is not sustainable. There does appear to be room for reducing waste and harvesting efficiencies in both industrial and residential sectors. The ultimate impact of power woes on economic output, growth, and

jobs will be significant, but difficult to quantify at this time. The prolonged use of aging plants will be a challenge during the southern hemisphere winter (June-August), when there will be peak demand for power capacity.

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